

It Went Up 1,000%. Is Alimentation Couche-Tard Inc. Still a Buy?

Description

Since 2003, after the acquisition of Circle K, **Alimentation Couche-Tard Inc.** (TSX:ATD.B) has made 49 acquisitions. Couche-Tard has done it again by acquiring Topaz, Ireland's largest convenience and fuel retailer. With the success of integrating the previous 49 acquisitions, or over 5,400 stores, Couche-Tard has proven its ability to acquire and integrate.

Why you may be interested

Couche-Tard is a growth story that has translated into substantial returns. Simply put, in the last year, while the S&P TSX dropped 9%, Couche-Tard went up 55%.

Its performance from 2008 to now has been nothing short of amazing. It generated free cash flow growth at a compound annual growth rate (CAGR) of 50%. In the same period, its dividend increased by over 460%, or a CAGR of 28%.

But since its yield has remained low for most of that time, investors should expect most returns to come from capital appreciation. From 2008 to now shares have appreciated 1,000%!

Since management and the board of directors must hold Couche-Tard shares, their interests are aligned with shareholders' interests.

The business

Couche-Tard is a rare Canadian consumer staple. It is also the leading convenience store operator in North America, Scandinavia, and the Baltics. Couche-Tard operates under strong brands such as Couche-Tard, Circle K, Mac's, Ingo, Statoil, and Kangaroo Express.

Couche-Tard has 7,987 stores in North America and 2,229 stores in eight European countries (before the Topaz acquisition). Couche-Tard's international presence includes 4,697 licensed stores in Asia, Mexico, Honduras, and United Arab Emirates.

Couche-Tard has an investment grade S&P credit rating of BBB, and it is committed to remain investment grade even amid its plans to further consolidate the fragmented convenience store industry.

The Topaz acquisition

The transaction is expected to complete in the fourth quarter of fiscal year 2016. Topaz is the leading convenience and fuel retailer in Ireland. Topaz consists of 464 stations, including its recently acquired Esso station network. Of these stations, 162 are owned by Topaz and 302 are owned by dealers.

Is it a buy today?

There are still consolidation opportunities out there, so Couche-Tard's future looks bright. However,

with a multiple of over 24, Couche-Tard is fully valued.

Further, if its growth slows for any reason such as integration problems, even if these problems are temporary, the shares might trade sideways or even pull back. So, prudent Foolish investors shouldn't buy all at once, but average in over time, especially on meaningful dips.

Still, with a payout ratio of only about 5% (while it has ranged between 2.2% and 13.7% in the past decade), there's ample room for Couche-Tard to grow its dividend.

In conclusion

Couche-Tard has risen 1,000% from 2008, and it looks like it has more growth coming. However, it is fully valued today and would be a better buy on dips. Still, Foolish investors looking for a company that performs consistently in a good or bad economy can opt to buy some shares today.

CATEGORY

1. Dividend Stocks
2. Investing

Category

1. Dividend Stocks
2. Investing

Date

2025/08/26

Date Created

2015/12/03

Author

kayng

default watermark

default watermark